



HUBBELL, ROTH & CLARK, INC
Consulting Engineers

Principals
George E. Hubbell
Thomas E. Biehl
Walter H. Alix
Peter T. Roth
Michael D. Waring
Keith D. McCormack
Nancy M.D. Faught

Senior Associates
Gary J. Tressel
Lawrence R. Ancypa
Kenneth A. Meichior
Randal L. Ford
David P. Wilcox
Timothy H. Sullivan

Associates
Jonathan E. Booth
Michael C. MacDonald
Marvin A. Olane
William R. Davis
Daniel W. Mitchell
Jesse B. VanDeCreek
Robert F. DeFrain
Marshall J. Gazioli
Thomas D. LaCross
Dennis J. Benoit
James F. Burton
Jane M. Graham

February 21, 2012

Discussion of Water Rate Impacts

On February 17, 2012 the Detroit Free Press ran an article entitled "Brace for Water Rate Boost". In this article, Grosse Pointe Shores was shown with a 28.9% increase. This information posted in the article is misleading and is discussed in the following paragraphs.

At the January 5, 2012 Council work session, HRC reported that the anticipated revenue requirement would likely increase 10% due to across the board system increases and another 10% due to the increase in GPS Peak Hour flows. The actual increase was 19.1%. HRC projected the GPS revenue requirement to go from \$398,208 to \$478,058. According to DWSD, GPS's proposed revenue requirement for FY 2012-2013 is \$474,255. If GPS internally uses the same volume to forecast retail rates as last year, the rate increase on the DWSD portion of the rate needed to cover DWSD costs would only need to be increased 19.1%. Additional information is shown below as found on the attached rate calculation sheets:

	FY 2011 – 2012	FY 2012 – 2013	Percent Change
Revenue Requirement	\$398,208	\$474,255	19.1%
Fixed Monthly Payment	\$10,535	\$16,962	61.0%
Rate per MCF	\$12.08	\$13.54	12.1%
Anticipated Volume (MCF)	22,500	20,000	-11.1%

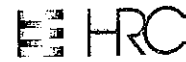
The percent change of the fixed monthly payment is consistent with DWSD changing from 25% fixed costs to 40% fixed cost, or a 60% increase in that item, as discussed in the two Council meetings.

The percent change shown in the Free Press article is the difference between the proposed revenue requirement for next fiscal year (FY 2012-2013) and what the revenue collected from the City would have been under the current rate year (FY 2011-2012) but with the lower volume. This is not actual volume but this coming year's (FY 2012-2013) negotiated lower volumes. DWSD does not use the proposed revenue requirements from last year which the rates were based on. Thus, a direct comparison is not made. This is especially problematic if a community is going down in volume as the City is.

GPS revenue requirements for last year (FY 2011-2012) were based on a volume of 22,500 MCF (1 MCF = 1,000 cubic feet). Upon actual system performance, the volume was renegotiated lower to 20,000 MCF or an 11% reduction for the next three years. DWSD reruns the current revenue requirement model with the new volume, which shows the revenue collected by DWSD to be approximately \$30,000 less than projected or \$368,020, and then compares that to the new revenue requirement of \$474,255 showing the 28.9% change. This over exaggerates the so called rate increase.

To compare year to year costs, you have to convert back to a common unit or \$/MCF which is essentially what DWSD did. However, they used the lower of the two volumes instead of keeping last year's volume as used to calculate last year's rate. Below is a comparison of how this affected other customers:

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Community	As Reported			Actual Change in Revenue Requirement		
	Rev Under Exist	Prop. Rev Req	% Variance	2011-12 Rev Req	2012-13 Rev Req	% Variance
Canton	\$ 9,463,771	\$ 10,249,942	8.31%	\$ 9,463,502	\$ 10,249,942	8.31%
Sterling Heights	\$ 11,985,372	\$ 13,058,896	8.96%	\$ 11,819,573	\$ 13,058,896	10.49%
Utica	\$ 417,876	\$ 452,137	8.20%	\$ 417,856	\$ 452,137	8.20%
Wixom	\$ 1,854,720	\$ 2,001,400	7.91%	\$ 1,801,083	\$ 2,001,400	11.12%
Keego Harbor	\$ 213,584	\$ 229,318	7.37%	\$ 213,622	\$ 229,318	7.35%
Plymouth Twp	\$ 4,713,520	\$ 3,572,213	-24.21%	\$ 4,070,420	\$ 3,572,213	-12.24%
Rochester Hills	\$ 9,879,796	\$ 10,676,229	8.06%	\$ 9,879,048	\$ 10,676,229	8.07%
SOCWA	\$ 18,173,772	\$ 19,792,309	8.91%	\$ 18,169,060	\$ 19,792,309	8.93%
GPS	\$ 368,020	\$ 474,255	28.87%	\$ 398,208	\$ 474,255	19.10%
Romeo	\$ 234,818	\$ 227,503	-3.12%	\$ 234,765	\$ 227,503	-3.09%
Sylvan Lake	\$ 154,842	\$ 180,474	16.55%	\$ 165,398	\$ 180,474	9.11%

If you have any questions or require any additional information, please contact the undersigned.

Very truly yours,

HUBBELL, ROTH & CLARK, INC.

FY 2011-12 PRELIMINARY RATE CALCULATION

COMMUNITY: Grosse Pt. Shores

	A	B	C	D	E	F	G
Service Category	Cct Dmnds or Proxies mgd	Units of Service Mcf/day	Applied Units Mcf/day ~	Unit Cost	Allocated Costs	Cost Recovery	
						Fixed (c)	Commodity
1 Commodity	(a)	61.6	66.0	\$201.54	\$13,301	\$0	\$13,301
2 Max Day Usage	1.4	191.2	195.6	895.75	175,177	84,679	90,498
3 Peak Hour Usage	2.3	312.8	317.2	0.00	0	0	0
4 Peak Hour Increment			121.6	264.06	32,123	0	32,123
5 Commodity Distance	18.9 miles		1,247.4	0.00	0	0	0
6 Max Day Distance		(2)*(5)	3,696.1	0.00	0	0	0
7 Peak Hour Use Distance		(3)*(5)	5,995.3	8.24	49,425	31,333	18,092
8 Peak Hour Incr Distance		(4)*(5)	2,299.2	0.00	0	0	0
9 Commodity Distance-EI	18.9 miles (b)		1,247.4	11.57	14,429	0	14,429
10 Max Day Distance-Elevation		(2)*(9)	3,696.1	1.41	5,204	0	5,204
11 Peak Hour Use Distance-Elevation		(3)*(9)	5,995.3	12.74	76,386	0	76,386
12 Peak Hour Incr Distance-Elevation		(4)*(9)	2,299.2	9.46	21,760	0	21,760
13 Customer B (Meters)		283 eq 5.8" mtrs		24.80	7,018	7,018	0
14 Wholesale Customer Support			66.0	51.29	3,385	3,385	0
15 Total FY 2012 Revenue Requirement					\$398,208	\$126,415	\$271,793
16 FY 2012 Billing Units					22,500	12	22,500
17 FY 2012 Rate Schedule (16)/(17)					\$17.70	\$10,535	\$12.08

(a) **Units of Service** = annual volume on Line 16 / 365 days. **Applied Units** include allocated Non-Revenue (unaccounted for) Water @ 7.1% of sales based on distance factor.

(b) **Elevation Factor** = 587 - 610 = 0 feet / 10.56 = 0.0 miles + 18.9 miles = 18.9 miles.

(c) 70% of the Capital portion of "Plant" and "Pipe" categories plus all of "Other" categories.

	Unit Costs - \$/Mcf Water Sales					Cost Recovery	
TOTAL	Comm'd	Max Day	PH Use	PH Incr	TOTAL	Fixed	Commodity
Regular (Lines 1-4)	0.59	7.79	-	1.43	9.80	3.76	6.04
Distance (Lines 5-8)	-	-	2.20	-	2.20	1.39	0.80
Dist/Elev (Lines 9-12)	0.64	0.23	3.39	0.97	5.23		5.23
Other (Lines 13-14)	0.46				0.46	0.46	-
TOTAL	1.69	8.02	5.59	2.39	17.70	5.62	12.08
Treatment	0.59	7.79			8.38	3.76	6.04
Pipes / Meters	0.46	-	2.20	-	2.66	1.85	0.80
Storage / Pumping	0.64	0.23	3.39	2.39	6.66	-	5.23

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PRELIMINARY

THE FOSTER GROUP

1/28/11

FY 2012-13 PROPOSED RATE CALCULATION

COMMUNITY: Grosse Pt. Shores

	A	B	C	D	E	F	G
Service Category	Cct Dmds or Proxies mgd	Units of Service Mcf/day	Applied Units Mcf/day ~	Unit Cost	Allocated Costs	Cost Recovery	
						Fixed (c)	Commodity
1 Commodity	(a)	54.8	58.9	\$214.33	\$12,624	\$0	\$12,624
2 Max Day Usage	1.4	191.2	195.3	997.27	194,730	135,607	59,123
3 Peak Hour Usage	2.7	364.9	369.0	0.00	0	0	0
4 Peak Hour Increment			173.8	269.05	46,756	0	46,756
5 Commodity Distance	18.9 miles		1,113.2	0.00	0	0	0
6 Max Day Distance		(2)*(5)	3,690.5	0.00	0	0	0
7 Peak Hour Use Distance		(3)*(5)	6,975.0	9.51	66,360	60,306	6,054
8 Peak Hour Incr Distance		(4)*(5)	3,284.5	0.00	0	0	0
9 Commodity Distance-EI	18.9 miles (b)		1,113.2	11.78	13,115	0	13,115
10 Max Day Distance-Elevation		(2)*(9)	3,690.5	1.52	5,617	0	5,617
11 Peak Hour Use Distance-Elevation		(3)*(9)	6,975.0	13.61	94,958	0	94,958
12 Peak Hour Incr Distance-Elevation		(4)*(9)	3,284.5	9.88	32,461	0	32,461
13 Customer B (Meters)		283 eq 5.8" mtrs		16.89	4,779	4,779	0
14 Wholesale Customer Support			58.9	48.47	2,855	2,855	0
15 Total FY 2013 Revenue Requirement					\$474,255	\$203,547	\$270,708
16 FY 2013 Billing Units					20,000	12	20,000
17 FY 2013 Rate Schedule (16)/(17)		Fixed Monthly Charge & Commodity Rate - \$/Mcf			\$23.71	\$16,962	\$13.54

(a) **Units of Service** = annual volume on Line 16 / 365 days. **Applied Units** include allocated Non-Revenue (unaccounted for) Water @ 7.5% of sales based on distance factor.

(b) **Elevation Factor** = 587 - 610 = 0 feet / 10.56 = 0.0 miles + 18.9 miles = 18.9 miles.

(c) 100% of the **Capital** portion of "Plant" and "Pipe" categories plus all of "Other" categories.

	Unit Costs - \$/Mcf Water Sales					Cost Recovery	
TOTAL	Comm'd	Max Day	PH Use	PH Incr	TOTAL	Fixed	Commodity
Regular (Lines 1-4)	0.63	9.74	-	2.34	12.71	6.78	5.93
Distance (Lines 5-8)	-	-	3.32	-	3.32	3.02	0.30
Dist/Elev (Lines 9-12)	0.66	0.28	4.75	1.62	7.31		7.31
Other (Lines 13-14)	0.38				0.38	0.38	-
TOTAL	1.67	10.02	8.07	3.96	23.71	10.18	13.54
Treatment	0.63	9.74			10.37	6.78	5.93
Pipes / Meters	0.38	-	3.32	-	3.70	3.40	0.30
Storage / Pumping	0.66	0.28	4.75	3.96	9.65	-	7.31